

Message Text

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ACTION EUR-25

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C O N F I D E N T I A L USNATO 4634

E.O. 11652: GDS: 12-31-79

TAGS: MCAP, NATO

SUBJECT: BURDEN SHARING: MEETING OF THE STUDY GROUP, SEPTEMBER 28

REF: A. USNATO 4280; B. USNATO 4382; C. USNATO 4448;

D. STATE 193190

SUMMARY: STUDY GROUP'S SEPTEMBER 28 EXAMINATION OF 19 SEP DRAFT OF REPORT TO COUNCIL RESULTED IN INSTRUCTIONS TO INTERNATIONAL STAFF TO PREPARE FINAL DRAFT OF REPORT BY 5 OCT WITH VIEW TO ADOPTION NO LATER THAN 15 OCT. FRG REP SLOWED PROGRESS BY INSISTING THAT TEXT AND TABLES REFLECT THAT BONN'S PAST BILATERAL AGREEMENT FULLY OFFSET US MILITARY BOP EXPENDITURES, AND BY INDICATING UNWILLINGNESS TO REGARD MILITARY BOP EXPENDITURES AS GROUND FOR OFFSET IN FUTURE WHEN US BASIC BOP BALANCE MAY BE IN SURPLUS. GREEK REP ANNOUNCED INCREASE IN MILITARY PURCHASES FROM US TO LEVEL THAT WOULD MORE THAN OVERCOME ADVERSE US BALANCE ON MILITARY ACCOUNT WITH HIS COUNTRY. END SUMMARY.

1. STUDY GROUP PROCEEDED WITH EXAMINATION OF 19 SEP DRAFT REPORT
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(AC/291-WP(73)1 (REVISED)). SEVERAL REPS POINTED OUT THAT US OVERALL BALANCE OF PAYMENTS (BOP) IS IMPROVING. IN RESPONSE, US REP (PRENDERGAST) SAID RECENT IMPROVEMENT DOES NOT WIPE OUT CUMULATIVE EFFECT OF BALANCE OF PAYMENTS DEFICITS OVER THE PAST 20

YEARS, THAT US MILITARY BOP DEFICITS WITH NATO EUROPE WILL INCREASE, AND STRESSED GROWING DOMESTIC POLITICAL PROBLEM POSED BY CONTINUING US MILITARY BOP DEFICIT. CHAIRMAN (HUMPHREYS) NOTED THAT NATO IS LOOKING FOR A POLITICAL SOLUTION TO A POLITICAL PROBLEM AND NOT ENGAGED IN EXERCISE AMONG ECONOMISTS.

2. THROUGHOUT ENTIRE MEETING, FRG REP RAISED OBJECTIONS TO PARTS OF TEXT AND TABLES IN DRAFT REPORT WHICH HE FELT FAILED TO CREDIT HIS GOVERNMENT WITH ACHIEVING 100 PERCENT OFFSET OF US MILITARY EXPENDITURES IN GERMANY UNDER LAST BILATERAL AGREEMENT. HE DENIED THE VALIDITY OF THE CONCEPT OF A MILITARY BALANCE OF PAYMENTS AND SUGGESTED THAT THERE WOULD BE NO ECONOMIC CASE FOR PROVIDING OFFSET BY NATO EFFORT ONCE US ACHIEVED A SURPLUS IN ITS BASIC BOP ACCOUNT. HE REGARDED THE COUNCIL RESOLUTION OF 26 JULY 1957 (CM(57)112) AS SUPPORTING THIS POSITION.

3. US REP (PRENDERGAST) POINTED OUT THAT FRG, LIKE OTHER NATO NATIONS, HAD BEEN REPORTING ITS MILITARY BOP SITUATION TO NATO ANNUALLY IN DPQ FOR SEVERAL YEARS AND WAS IN POOR POSITION TO CHALLENGE THE CONCEPT. HE SAID IF THE ALLIES WERE TO TAKE POSITION THAT THE PROSPECT OF A FUTURE SURPLUS IN US BASIC BOP BALANCE MAKES IT UNNECESSARY FOR THEM TO DO MORE IN BURDEN SHARING, SUCH A REACTION WOULD STRENGTHEN HAND OF THOSE OPPOSING THE ADMINISTRATION AND WHO ARE INTENT ON REDUCING US FORCES IN EUROPE.

4. GREEK REPRESENTATIVE, UNDER INSTRUCTIONS, MADE STATEMENT THAT PROSPECTIVE PURCHASE BY GREECE OF AIRCRAFT FROM US WILL RESULT IN SURPLUS IN FAVOR OF US IN MILITARY BALANCE OF PAYMENTS WITH GREECE.

5. STEERING GROUP AGREED TO INCORPORATE IN TEXT FOOTNOTE TO PARA 11 RELATIVE TO UK EXPENDITURES ARISING FROM STATIONING OF FORCES ON THE CONTINENT. BELGIUM INDICATED THAT IT WOULD BE PROVIDING SIMILAR DATA ON ITS FORCES STATIONED IN GERMANY.

6. IN RESPONSE TO UK SUGGESTION, IT WAS AGREED THAT US AND FRG IN CONSULTATION WITH THE UK AND IS WOULD WORK ON LANGUAGE TO FILL OUT PARA 16 TO TAKE INTO ACCOUNT LOAN ARRANGEMENTS WITH FRG.
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7. GROUP AGREED FOR IS TO REDRAFT PARA 17 TO ELIMINATE REFERENCE TO FACTORS BEHIND OVERVALUATION OF US DOLLAR.

8. US AGREED TO PROVIDE BREAKDOWN OF \$440 MILLION INTO COMPONENT ELEMENTS ENUMERATED IN PARA 20.

9. CHAIRMAN INDICATED THAT ALTHOUGH FRANCE HAS INFORMED HIM IT DOES NOT INTEND TO PARTICIPATE IN WORK OF STUDY GROUP, FRANCE IS BEING KEPT INFORMED OF PROGRESS OF GROUP.

10. IT WAS AGREED THAT IS WOULD PREPARE A FINAL DRAFT OF STUDY GROUP REPORT FOR CIRCULATION BY 5 OCT. IN CONSULTATION WITH NATIONAL REPS, THAT FRG AND US WOULD ATTEMPT BILATERALLY TO

DEVISE MUTUALLY SATISFACTORY WORDING OF PASSAGES RELATING TO EFFECT OF LAST OFFSET AGREEMENT BETWEEN THEM, AND THAT STUDY GROUP WOULD MEET FOR FINAL SESSION PRIOR TO 15 OCT AFTER NATIONAL CAPITALS HAD TIME TO REACT.

11. COMMENT: FRG ARGUMENTS IN STUDY GROUP HAVE LAID BASIS FOR POSSIBLE SUBSEQUENT REFUSAL BY FRG TO PARTICIPATE IN ANY NATO BURDEN SHARING ARRANGEMENTS. GERMAN REACTION MAY BE ATTRIBUTABLE TO EFFORTS OF SEVERAL OTHER NATIONAL REPS TO BUILD CASE THAT THE US PROBLEMS OF ADDED BUDGETARY COSTS AND MILITARY BOP DEFICITS ARE SOLELY A BILATERAL US-FRG MATTER. MISSION DOES NOT EXPECT THAT THESE DEVELOPMENTS WILL DELAY SUBMISSION OF REPORT BY STUDY GROUP BUT THEY PRESAGE TOUGH SLEDDING WHEN PERMREPS ADDRESS BASIC ISSUES IN NAC. END COMMENT.

12. FINAL DRAFT STUDY GROUP REPORT WILL BE SENT TO WASHINGTON AS SOON AS POSSIBLE. MISSION WILL CONTINUE TO PRESS FOR SPEEDY CONSIDERATION IN NAC UNLESS INSTRUCTED TO CONTRARY.

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